

**CENTRAL LYON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2007**

**EAST, VANDER WOUDE, GRANT & CO., P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
707 West 11<sup>th</sup> Street  
Sioux Falls, SD 57104

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**CENTRAL LYON COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<b>Board of Education (Before September 2006 Election)</b>		
Bruce Vogel	President	2006
Judy Gacke	Vice President	2007
Chet DeJong	Board Member	2006
Patrick McCarty	Board Member	2008
Steve Sieperda	Board Member	2008
<b>Board of Education (After September 2006 Election)</b>		
Steve Sieperda	President	2008
Patrick McCarty	Vice President	2008
Chet DeJong	Board Member	2009
Gail VanBerkum	Board Member	2009
Judy Gacke	Board Member	2007
<b>School Officials</b>		
Dave Ackerman	Superintendent	Indefinite
Jackie Wells	District Secretary/Treasurer and Business Manager	Indefinite
Randy Waagmeester	Attorney	Indefinite

Paul T. East, CPA  
Paul W. Vander Woude, CPA  
Rose M. Grant, CPA, MST

707 West 11<sup>th</sup> Street  
Sioux Falls, SD 57104  
(605) 334-9111  
(605) 334-2195 Fax

### Independent Auditor's Report

To the Board of Education of the  
Central Lyon Community School District

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Central Lyon Community School District, Rock Rapids, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Central Lyon Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated December 7, 2007 on our consideration of Central Lyon Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Lyon Community School District's basic financial statements. The previous audits were not done by this office, but were in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*East, Vander Woude, Grant & Co, PC*

East, Vander Woude, Grant & Co., P.C.

December 7, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Central Lyon Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **Financial Highlights**

- General Fund revenues increased from \$5,405,373 in fiscal year 2006 to \$5,939,188 in fiscal year 2007, while General Fund expenditures increased from \$5,195,980 in fiscal year 2006 to \$5,407,515 in fiscal 2007. The District's General Fund balance increased from \$624,171 in fiscal 2006 to \$1,155,844 in fiscal 2007, a 85.2% increase. Spending Authority has been carefully monitored in the last eight years and this must be continued for the future financial health of the district.
- The increase in General Fund revenues was attributable to an increase in local and state revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance has increased is expenditures have been carefully monitored during the year.
- An increase in interest rates and more money in investments for the year resulted in higher interest earnings in the General Fund alone to increase from \$ 75,780 in fiscal year 2006 to \$133,923 in fiscal year 2007.
- Enrollment declines and increased numbers of open enrolled out pupils continue to plague the District and create financial burdens.

### **Overview of the Financial Statements**

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial status.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Central Lyon Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Central Lyon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basis financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison to the District's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

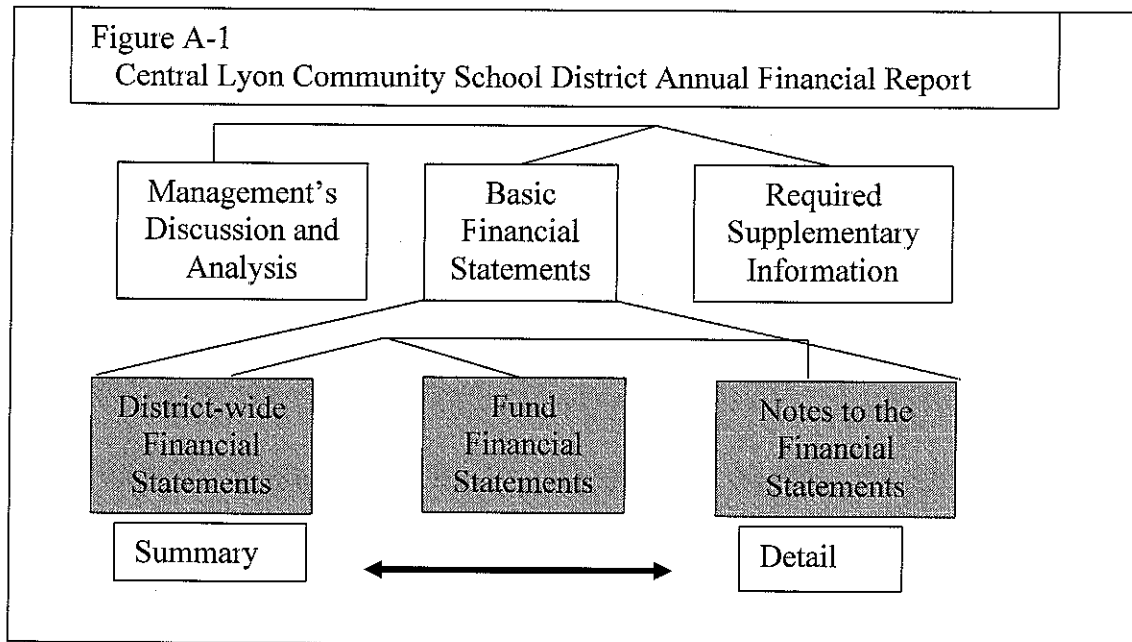


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2: Major Features of the District Wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services is included here
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help it cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to repay its long-term debts, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balance.

*Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-



wide financial statements. The District's Enterprise Funds, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and FFA Property Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)								
	Governmental Activities		Business type Activities		Total Activities		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006	2006-2007	%
Current and other assets	\$ 5,622	\$ 6,160	\$ 58	\$ 32	\$ 5,680	\$ 6,192	(512)	(8.27%)
Capital assets	9,712	9,922	101	79	9,813	10,001	(188)	(1.88%)
Total assets	15,334	16,082	159	111	15,493	16,193	(700)	(10.15%)
Long-term Liabilities	3,348	3,733	-	-	3,348	3,733	(385)	(10.31%)
Other Liabilities	3,157	4,565	7	5	3,164	4,570	(1,406)	(30.77%)
Total Liabilities	6,505	8,298	7	5	6,512	8,303	(1,791)	(41.08%)
Net Assets								
Invested in capital assets, net of related debt	6,370	6,212	80	80	6,450	6,292	158	2.51%
Restricted	1,310	992	-	-	1,310	992	318	32.06%
Unrestricted	1,149	580	72	27	1,221	607	614	101.15%
Total net assets	\$ 8,829	\$ 7,784	\$ 152	\$ 107	\$ 8,981	\$ 7,891	1,090	135.72%

The District's combined net assets increased by approximately \$1,004,000 over the prior year. The largest portion of the District's net assets is invested in capital assets less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$231,000 or 23% over the prior year. The increase was primarily a result of increased Local Option Sales and Services Tax revenues received and are restricted to the payment of indebtedness.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or the legal requirements – increased approximately \$615,000 or 101%. This increase in unrestricted net assets was a result of the District's efforts in controlling the expenditures and increased revenue in several areas.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007.

Figure A-4 Changes in Net Assets (Expressed in Thousands)								
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	2007	2006	2007	2006	2007	2006	2006-2007	
Revenue								
Program revenue:								
Charges for service	\$ 713	\$ 597	\$ 217	\$ 175	\$ 930	\$ 772	20	466%
Operating grants, contributions and restricted interest	727	691	104	102	831	793	4	792%
Capital grants, contributions and restricted interest	73	100	-	-	73	100	(27)	000%
General revenues:								
Property tax	2,668	2,500	-	-	2,668	2,500	6	720%
Local option sales and service tax	505	320	-	-	505	320	57	813%
Unrestricted state grants	2,647	2,475	4	4	2,651	2,479	6	938%
Other	165	97	13	-	178	97	83	505%
Total revenues	7,498	6,780	338	281	7,836	7,061	10	976%
Program expenses:								
Governmental activities:								
Instruction	4,460	4,189	-	-	4,460	4,189	6	469%
Support service	1,664	1,721	-	-	1,664	1,721	(3)	312%
Non-instructional programs	-	-	292	250	292	250	16	800%
Other expenses	346	401	-	-	346	401	(13)	716%
Total expenses	6,470	6,311	292	250	6,762	6,561	3	064%
Change in net assets	\$ 1,028	\$ 469	\$ 46	\$ 31	\$ 1,074	\$ 500	114	800%

In fiscal 2007, property tax and unrestricted state grants account for 70.9% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 95% of the revenue from business type activities.

The District's total revenues were approximately \$7.836 million of which \$7.498 million was for governmental activities and .338 million was for business type activities.

As shown in Figure A-4, the District's as a whole experienced a 10.98% increase in revenues and a 3.06% increase in expenses. Local option sales and service tax increased approximately \$185,000 to fund future debt payments and capital improvements. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

### Governmental Activities

Revenues for governmental activities were \$7,498,073 and expenses were \$6,627,768. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities  
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 4,460	\$ 4,189	6.47%	\$ 3,439	\$ 3,223	6.70%
Support services	1,664	1,721	(3.31%)	1,583	1,557	1.67%
Non-instructional programs	-	-	0.00%	-	-	0.00%
Other expenses	346	402	(13.93%)	54	116	(53.45%)
Totals	<u>\$ 6,470</u>	<u>\$ 6,312</u>	<u>2.50%</u>	<u>\$ 5,076</u>	<u>\$ 4,896</u>	<u>3.68%</u>

- The cost financed by users of the District's programs was \$593,710.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$800,469.
- The net cost of governmental activities was financed with \$3,172,532 in property and other taxes and \$2,651,442 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$338,426 representing a 20 % increase over the prior year while expenses totaled \$292,346, a 16.87% increase over the prior year. The District's business type activities include the School Nutrition Fund and FFA Property. Revenue of these activities was comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

As previously noted, Central Lyon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,474,354, above last year's ending fund balances of \$1,604,049. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the increases in property taxes (general fund and management) and local option sales and services taxes collected by the State and disbursed to the District.

### Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. Also spending was carefully monitored during the last year. The General Fund increased from \$624,171 to \$1,155,844.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$23,277 in fiscal 2006 to \$167,361 in fiscal 2007. While revenues increased from the prior year, the District decreased the amount needed for debt service transfer due to increases in the local option sales and services taxes received.
- The Capital Projects Fund balance increased from \$450,013 in 2006 to \$862,870 in 2007. This was mainly due to local option sales taxes collected during the fiscal year 2007 and being held to make bond payments for future years.

## Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$101,417 at June 30, 2006 to \$137,732 at June 30, 2007, representing an increase of approximately 36%. For fiscal 2007, the District increased meal prices and decreased expenditures resulting in the increase in net assets.

## BUDGETARY HIGHLIGHTS

The District's receipts were \$395,257 more than budgeted receipts, with a variance of 5.5%. The most significant variance resulted from the District receiving more revenue than budgeted for in local option sales and service taxes and interest income.

Total expenditures were \$48,907 more than budgeted, due primarily to the District's budget for the Debt Service and Property, Plant and Equipment. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget normally should exceed the actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the debt service payments and property, plant and equipment expenditures at the year-end leaving insufficient time to amend the certified budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$10 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.89% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$317,919.

The original cost of the District's capital assets was \$14.7 million. Governmental funds account for \$14.5 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the Land Improvements, Furniture and Equipment categories. The District purchased additional computers and other equipment as well as a new vehicle and land improvements.

Figure A-6  
Capital Assets, net of Depreciation  
(expressed in thousands)

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 51	\$ 51	\$ -	\$ -	\$ 51	\$ 51	0.00%
Buildings	8,422	8,650	-	-	8,422	8,650	(2.64%)
Improvements other than buildings	268	295	-	-	268	295	(9.15%)
Furniture and Equipment	970	926	101	79	1,071	1,005	6.57%
Totals	\$ 9,711	\$ 9,922	\$ 101	\$ 79	\$ 9,812	\$ 10,001	(1.89%)

## Long-Term Debt

At June 30, 2007, the District had \$3,381,595 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 10.8% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The district had total outstanding bonded indebtedness of \$3,300,000; notes payable of \$41,755; early retirement of \$21,655; and compensated absences of \$18,185 at June 30, 2007.

Figure A-7 Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-2007
General Obligation Bonds	\$ 2,725	\$ 3,050	(10.66%)
Capital Notes	575	660	(12.88%)
Notes Payable	42	-	100.00%
Early Retirement	22	73	(69.86%)
Compensated Absences	18	7	157.14%
	<u>\$ 3,382</u>	<u>\$ 3,790</u>	<u>(10.77%)</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

- The financial history of the State of Iowa's support for public K-12 schools has translated into restricted levels of state aid funding for education at the local level. Future needs of the district will continue to grow and it is hoped that allowable growth would match the needs of public K-12 education.
- District budgeted enrollment for fiscal year 2006-2007 was 722 students. Under Iowa's school finance formula, funding is highly dependent upon enrollment. During the 2006-2007 school-year, Central Lyon students who open enroll out to other districts decreased by 1 student, from 81 to 80. Because Central Lyon is the resident district, the student is counted for state funding, but then funding is paid to the receiving district. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Fiscal 2007 will be the last year of a three-year contract with the Central Lyon Education Teacher Association (CLIA). The District will negotiate a new agreement during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect of the District's General Fund budget and related fund balance.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Wells, Board Secretary/Business Manager at the Central Lyon Community School District, 1105 S. Story St., Rock Rapids, IA 51246 or 712-472-2664.

## **BASIC FINANCIAL STATEMENTS**

**Central Lyon Community School District**



Central Lyon Community School District  
Statement of Net Assets  
June 30, 2007

Exhibit A

	Governmental Activities	Business Type Activities	Totals
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 292,253	\$ -	\$ 292,253
Other	2,766,416	38,450	2,804,866
Receivables:			
Property tax:			
Delinquent	33,327	-	33,327
Succeeding year	2,293,947	-	2,293,947
Local option sales taxes	140,727	-	140,727
Accounts	85,697	-	85,697
Accrued interest:			
ISCAP	6,596	-	6,596
Other	3,045	-	3,045
Inventories	-	19,972	19,972
Capital assets, net of accumulated depreciation	9,711,815	100,588	9,812,403
<b>Total assets</b>	<b>15,333,823</b>	<b>159,010</b>	<b>15,492,833</b>
<b>Liabilities</b>			
Accounts payable	38,797	953	39,750
Salaries and benefits payable	497,492	1,908	499,400
Accrued interest payable	9,139	-	9,139
Deferred revenue - succeeding year			
Property tax	2,293,947	-	2,293,947
Other	-	3,782	3,782
ISCAP warrants payable	293,000	-	293,000
ISCAP accrued interest payable	6,233	-	6,233
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	425,000	-	425,000
Note payable	20,368	-	20,368
Compensated absences	18,185	-	18,185
Portion due after one year:			
General obligation bonds payable	2,875,000	-	2,875,000
Early retirement	5,801	-	5,801
Note payable	21,387	-	21,387
<b>Total liabilities</b>	<b>\$ 6,504,349</b>	<b>\$ 6,643</b>	<b>\$ 6,510,992</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	6,370,060	79,987	6,450,047
Restricted for:			
Management levy	86,942	-	86,942
Physical plant and equipment levy	167,361	-	167,361
Other special revenue purposes	147,519	-	147,519
Capital projects	862,870	-	862,870
Debt service	45,518	-	45,518
Unrestricted	1,149,204	72,380	1,221,584
<b>Total net assets</b>	<b>\$ 8,829,474</b>	<b>\$ 152,367</b>	<b>\$ 8,981,841</b>

See notes to financial statements.

Central Lyon Community School District  
Statement of Activities  
June 30, 2007

	Expenses	Charges for Service	Program Revenues	
			Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,725,093	\$ 49,310	\$ 293,683	\$ -
Special instruction	749,445	27,426	117,997	-
Other instruction	985,118	505,448	26,647	-
	<u>4,459,656</u>	<u>582,184</u>	<u>438,327</u>	<u>-</u>
Support services:				
Student services	112,575	-	15,504	-
Instructional staff services	202,772	-	-	-
Administration services	641,516	-	4,515	-
Operation and maintenance of plant services	515,622	11,526	19,762	-
Transportation services	191,666	-	29,898	-
	<u>1,664,151</u>	<u>11,526</u>	<u>69,679</u>	<u>-</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Long-term debt interest	107,171	-	16,020	37,305
AEA flow through	239,138	-	239,138	-
	<u>346,309</u>	<u>-</u>	<u>255,158</u>	<u>37,305</u>
Total governmental activities	<u>6,470,116</u>	<u>593,710</u>	<u>763,164</u>	<u>37,305</u>
Business type activities:				
Non-instructional programs:				
Food service and FFA operations	292,346	217,440	107,553	-
Total	<u>\$ 6,762,462</u>	<u>\$ 811,150</u>	<u>\$ 870,717</u>	<u>\$ 37,305</u>
<b>General Revenues:</b>				
Property tax levied for:				
General purposes				
Debt service				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (2,382,100)	\$ -	\$ (2,382,100)
(604,022)	-	(604,022)
(453,023)	-	(453,023)
(3,439,145)	-	(3,439,145)
(97,071)	-	(97,071)
(202,772)	-	(202,772)
(637,001)	-	(637,001)
(484,334)	-	(484,334)
(161,768)	-	(161,768)
(1,582,946)	-	(1,582,946)
-	-	-
(53,846)	-	(53,846)
-	-	-
(53,846)	-	(53,846)
(5,075,937)	-	(5,075,937)
-	32,647	32,647
(5,075,937)	32,647	(5,043,290)
2,433,268	-	2,433,268
64,388	-	64,388
170,148	-	170,148
504,728	-	504,728
2,651,442	-	2,651,442
197,966	136	198,102
81,954	13,297	95,251
6,103,894	13,433	6,117,327
1,027,957	46,080	1,074,037
7,801,517	106,287	7,907,804
\$ 8,829,474	\$ 152,367	\$ 8,981,841

Central Lyon Community School District  
Balance Sheet – Governmental Funds  
June 30, 2007

Exhibit C

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
ISCAP	\$ 292,253	\$ -	\$ -	\$ -	\$ 292,253
Other	1,580,933	47,123	720,259	418,101	2,766,416
Receivables:					
Property tax:					
Delinquent	27,243	894	-	5,190	33,327
Local option sales taxes	-	-	140,727	-	140,727
Accounts	85,697	-	-	-	85,697
Accrued interest:					
ISCAP	6,596	-	-	-	6,596
Other	-	-	1,884	1,161	3,045
Total assets	<u>1,992,722</u>	<u>48,017</u>	<u>862,870</u>	<u>424,452</u>	<u>3,328,061</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	56,008	-	-	974	56,982
Salaries and benefits payable	481,637	-	-	15,855	497,492
ISCAP warrants payable	293,000	-	-	-	293,000
ISCAP accrued interest payable	6,233	-	-	-	6,233
Total liabilities	<u>836,878</u>	<u>-</u>	<u>-</u>	<u>16,829</u>	<u>853,707</u>
Fund balances:					
Reserved for debt service	-	48,017	-	-	48,017
Unreserved	1,155,844	-	862,870	407,623	2,426,337
Total fund balances	<u>1,155,844</u>	<u>48,017</u>	<u>862,870</u>	<u>407,623</u>	<u>2,474,354</u>
Total liabilities and fund balances	<u>\$ 1,992,722</u>	<u>\$ 48,017</u>	<u>\$ 862,870</u>	<u>\$ 424,452</u>	<u>\$ 3,328,061</u>

See notes to financial statements.

Central Lyon Community School District  
Reconciliation of the Balance Sheet – Governmental  
Funds to the Statement of Net Assets  
June 30, 2007

Exhibit D

<b>Total fund balances of governmental funds (page 20)</b>	<b>\$ 2,474,354</b>
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Amounts reported for governmental activities in the  
Statements of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	9,711,815
---	-----------

Other long-term assets are not available to pay current  
period expenditures and, therefore, are deferred in the  
governmental funds

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(9,139)
---	---------

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(3,347,556)</u>
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<b>Net assets of governmental activities (page 17)</b>	<b><u>\$ 8,829,474</u></b>
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See notes to financial statements.

Central Lyon Community School District  
Statement of Revenues, Expenditures and  
Changes in Fund Balances – Governmental Funds  
June 30, 2007

Exhibit E

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 2,233,205	\$ 64,387	\$ 504,729	\$ 370,211	\$ 3,172,532
Tuition	75,068	-	-	-	75,068
Other	252,366	16,020	37,305	565,957	871,648
Intermediate sources	239,138	-	-	-	239,138
State sources	2,963,443	41	-	235	2,963,719
Federal sources	175,968	-	-	-	175,968
Total Revenues	5,939,188	80,448	542,034	936,403	7,498,073
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,449,678	-	-	-	2,449,678
Special instruction	749,445	-	-	-	749,445
Other instruction	451,324	-	-	533,794	985,118
	3,650,447	-	-	533,794	4,184,241
Support services:					
Student services	112,575	-	-	-	112,575
Instructional staff services	181,289	-	-	-	181,289
Administration services	641,516	-	-	-	641,516
Operation and maintenance of plant services	407,393	-	-	107,194	514,587
Transportation services	175,157	-	-	67,105	242,262
	1,517,930	-	-	174,299	1,692,229
Non-instructional programs	-	-	-	-	-
Other expenditures:					
Facilities acquisition	-	-	-	37,062	37,062
Long-term debt interest	-	106,853	-	-	106,853
AEA flow through	239,138	-	-	-	239,138
	239,138	106,853	-	37,062	383,053
Total expenditures	5,407,515	106,853	-	745,155	6,259,523
Excess (deficiency) of revenues over (under) expenditures	531,673	(26,405)	542,034	191,248	1,238,550
Other financing sources (uses):					
Operating transfers in (out)	-	139,932	(129,177)	(10,755)	-
General obligation bonds	-	(410,000)	-	41,755	(368,245)
Total other financing sources (uses)	-	(270,068)	(129,177)	31,000	(368,245)
Net change in fund balances	531,673	(296,473)	412,857	222,248	870,305
Fund balances beginning of year	624,171	344,490	450,013	185,375	1,604,049
Fund balances end of year	\$ 1,155,844	\$ 48,017	\$ 862,870	\$ 407,623	\$ 2,474,354

See notes to financial statements.

Central Lyon Community School District  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances – Governmental Funds to the Statement of Activities  
June 30, 2007

Exhibit F

**Net change in fund balance - total governmental funds (page 22)** \$ 870,305

**Amounts reported for governmental activities in the  
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	103,911	
Depreciation expense	<u>(314,186)</u>	(210,275)

Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds.

Proceeds from issuing long-term liabilities provided current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(41,755)	
Repaid	<u>410,000</u>	368,245

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	-	
Compensated absences	<u>(318)</u>	(318)

**Change in net assets of governmental activities (page 19)** \$ 1,027,957

Central Lyon Community School District  
Statement of Net Assets - Proprietary Funds  
June 30, 2007

Exhibit G

	School Nutrition	FFA Property	Enterprise Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 36,819	\$ 1,631	\$ 38,450
Inventories	6,491	13,481	19,972
Capital assets, net of accumulated depreciation	100,588	-	100,588
<b>Total assets</b>	<u>143,898</u>	<u>15,112</u>	<u>159,010</u>
<b>Liabilities</b>			
Accounts payable	476	477	953
Deferred revenues	3,782	-	3,782
Salaries and benefits payable	1,908	-	1,908
<b>Total Liabilities</b>	<u>6,166</u>	<u>477</u>	<u>6,643</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	79,987	-	79,987
Unrestricted	57,745	14,635	72,380
<b>Total net assets</b>	<u>\$ 137,732</u>	<u>\$ 14,635</u>	<u>\$ 152,367</u>

See notes to financial statements.



Central Lyon Community School District  
Statement of Revenues, Expenditures and Changes in Fund Net Assets -Proprietary Funds  
June 30, 2007

Exhibit H

	School Nutrition	FFA Property	Enterprise Totals
Operating revenues:			
Local sources:			
Charges for service	\$ 184,778	\$ 32,662	\$ 217,440
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	102,232	-	102,232
Benefits	13,550	-	13,550
Purchased services	5,017	-	5,017
Supplies	144,921	22,897	167,818
Depreciation	3,729	-	3,729
Total operating expenses	269,449	22,897	292,346
Operating (loss) Income	(84,671)	9,765	(74,906)
Non-operating revenues:			
State sources	3,605	-	3,605
Federal sources	103,948	-	103,948
Miscellaneous	13,297	-	13,297
Interest income	136	-	136
Total non-operating revenues	120,986	-	120,986
Change in net assets	36,315	9,765	46,080
Net assets beginning of year	101,417	4,870	106,287
Net assets end of year	\$ 137,732	\$ 14,635	\$ 152,367

See notes to financial statements.

Central Lyon Community School District  
Statement of Cash Flows - Proprietary Funds  
June 30, 2007

Exhibit I

	School Nutrition	FFA Property	Enterprise Totals
<b>Cash flows from operating activities:</b>			
Cash received from sale of lunches and breakfasts	\$ 185,228	\$ -	\$ 185,228
Cash received from miscellaneous services	-	32,662	32,662
Cash paid to employees for services	(115,344)	-	(115,344)
Cash paid to suppliers for goods or services	(130,430)	(36,404)	(166,834)
Net cash used by operating activities	(60,546)	(3,742)	(64,288)
<b>Cash flows from non-capital financing activities:</b>			
State grants received	3,605	-	3,605
Federal grants received	83,396	-	83,396
Miscellaneous revenue	13,297	-	13,297
Net cash provided by non-capital financing activities	100,298	-	100,298
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets	(25,034)	-	(25,034)
Net cash used by capital and related financing activities	(25,034)	-	(25,034)
<b>Cash flows from investing activities:</b>			
Interest on investments	136	-	136
Net increase (decrease) in cash and cash equivalents	14,854	(3,742)	11,112
Cash and cash equivalents beginning of year	21,965	5,373	27,338
Cash and cash equivalents end of year	\$ 36,819	\$ 1,631	\$ 38,450
<b>Reconciliation of operating loss to net cash used by operating activities</b>			
Operating (loss) income	\$ (84,671)	\$ 9,765	\$ (74,906)
Adjustments to reconcile operating (loss) income to net cash used by operating activities			
Commodities used	20,552	-	20,552
Depreciation	3,729	-	3,729
(Increase) decrease in inventories	(1,520)	(13,481)	(15,001)
Increase (decrease) in accounts payable	476	(26)	450
Increase in deferred revenue	450	-	450
Increase in salaries and benefits payable	438	-	438
Net cash used by operating activities	\$ (60,546)	\$ (3,742)	\$ (64,288)

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2007, the District received \$20,552 of federal commodities.

See notes to financial statements

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

(1) **Summary of Significant Accounting Policies**

The Central Lyon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Rock Rapids and Doon, Iowa, and the predominant agricultural territory in central Lyon County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Central Lyon Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Central Lyon Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely, to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year-end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum-adjusting entries to the cash basis financial records.

**D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking, is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital Assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (in Years)
Buildings	50 years
Improvements other than buildings	20 - 50 years
Furniture and equipment:	5 - 15 years

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements in the other expenditures functional area exceeded the amounts budgeted but the District did not exceed its General Fund unspent authorized budget.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$2,014,531</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – the District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk – the investments in the Iowa Schools Joint Investment Trust were rated AAA by Moody’s Investors Service.

**(3) Termination Benefits**

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five. The application for early retirement is subject to approval by the Board of Education by February 1 of the applicable year.

Early retirement benefits are equal to the difference between the base salary and the total individual regular contract salary for the year the application is submitted.

Early retirement benefits may be paid in one lump sum on July 20 or may be used by the district to pay the retiring employee’s cost of medical and/or dental insurance until the benefit is exhausted. At the time of application for early retirement benefits, the retiring employee must choose which method of payment is to be used.

At June 30, 2007, the District has obligations to seven participants with a total liability of \$21,655. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$51,767.

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from:	Amount
Debt Service	Local Option Sales	\$ 129,177
	Physical Plant and Equipment Levy	10,755
		<u>\$ 139,932</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.



Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

**(5) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	01/26/07	01/26/08	\$ 292,253	\$ 6,596	\$ 293,000	\$ 6,233
2007-08A	06/28/07	06/28/08	-	-	-	-
Total			<u>\$ 292,253</u>	<u>\$ 6,596</u>	<u>\$ 293,000</u>	<u>\$ 6,233</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No advances from ISCAP were made during the current year.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.250%	5.315%

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

**6) Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	51,000	-	-	51,000
Total capital assets not being depreciated	51,000	-	-	51,000
Capital assets being depreciated:				
Buildings	12,059,350	15,430	-	12,074,780
Improvements other than buildings	627,651	-	-	627,651
Furniture and equipment	1,728,474	88,481	37,568	1,779,387
Total capital assets being depreciated	14,415,475	103,911	37,568	14,481,818
Less accumulated depreciation for:				
Buildings	3,409,513	243,077	-	3,652,590
Improvements other than buildings	332,388	26,999	-	359,387
Furniture and equipment	802,484	44,110	37,568	809,026
Total accumulated depreciation	4,544,385	314,186	37,568	4,821,003
Total capital assets being depreciated, net	9,871,090	(210,275)	-	9,660,815
Governmental activities capital assets, net	9,922,090	(210,275)	-	9,711,815
<b>Business type activities:</b>				
Furniture and equipment	157,595	25,033	15,862	166,766
less accumulated depreciation	78,312	3,728	15,862	66,178
Business type activities capital assets, net	79,283	21,305	-	100,588

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular \$ 275,415

Support services:

Instructional staff 21,483

Operation and maintenance of plant 1,035

Transportation 16,253

314,186

Unallocated -

Total depreciation expense - governmental activities \$ 314,186

Business type activities:

Food service operations \$ 3,728

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

**(7) Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2007, is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$3,050,000	\$ -	\$ 325,000	\$ 2,725,000	\$ 335,000
Capital Notes	660,000	-	85,000	575,000	90,000
Lease Payable	-	66,755	25,000	41,755	20,368
Early Retirement	73,422	-	51,767	21,655	15,855
Compensated Absences	6,640	11,545		18,185	18,185
Total	<u>\$3,790,062</u>	<u>\$ 78,300</u>	<u>\$ 486,767</u>	<u>\$ 3,381,595</u>	<u>\$ 479,408</u>

Details of the District's June 30, 2007, general obligation bonded and capital lease indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2003			Capital Loan Notes Sept. 15, 2003		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2008	2.500%	335,000	76,943	2.600%	90,000	19,198
2009	2.750%	340,000	68,568	2.950%	90,000	16,858
2010	2.850%	350,000	59,217	3.250%	95,000	14,202
2011	2.875%	360,000	49,243	3.550%	95,000	11,115
2012	2.875%	375,000	38,892	3.700%	100,000	7,742
2013	2.875%	375,000	28,111	3.850%	105,000	4,042
2014	2.900%	370,000	17,330		-	-
2015	3.000%	220,000	6,600		-	-
Total		<u>\$2,725,000</u>	<u>\$344,904</u>		<u>\$575,000</u>	<u>\$73,157</u>

Year Ending June 30,	Bus Lease			Bonds & Lease Totals		
	Interest Rate	Principal	Interest	Principal	Interest	Total
2008	5.000%	20,368	2,088	445,368	98,229	543,597
2009	5.000%	21,387	1,069	451,387	86,495	537,882
2010		-	-	445,000	73,419	518,419
2011		-	-	455,000	60,358	515,358
2012		-	-	475,000	46,634	521,634
2013		-	-	480,000	32,153	512,153
2014		-	-	370,000	17,330	387,330
2015		-	-	220,000	6,600	226,600
Total		<u>\$41,755</u>	<u>\$3,157</u>	<u>\$3,341,755</u>	<u>\$421,218</u>	<u>\$3,762,973</u>

The District entered into to a lease purchase agreement for a 2008 International bus on October 9, 2006. Initial payment of \$25,000 was made on December 15, 2006, with annual payments of \$22,456 required until December 15, 2008 with the interest rate of 5%.

During the year ended June 30, 2007, the District made principal and interest payments totaling \$540,853 under the agreements.

Central Lyon Community School District  
Notes to Financial Statements  
June 30, 2007

**(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$197,218, \$193,220 and \$190,715 respectively, equal to the required contributions for each year.

**(9) Risk Management**

Central Lyon Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$239,138 for the year ended June 30, 2007, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Central Lyon Community School District  
Required Supplementary Information**

Central Lyon Community School District  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
 Budget and Actual - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Revenues:			
Local sources	\$ 4,161,003	\$ 230,873	\$ 4,161,003
Intermediate sources	-	-	-
State sources	3,202,857	3,605	3,206,462
Federal sources	175,968	103,948	279,916
Total revenues	<u>7,539,828</u>	<u>338,426</u>	<u>7,647,381</u>
Expenditures:			
Instruction	4,184,241	-	4,184,241
Support services	1,692,229	-	1,692,229
Non-instructional programs	-	292,346	292,346
Other expenditures	793,053	-	793,053
Total expenditures	<u>6,669,523</u>	<u>292,346</u>	<u>6,961,869</u>
Excess of revenues under expenditures	<u>870,305</u>	<u>46,080</u>	<u>685,512</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	870,305	46,080	685,512
Balances beginning of year	<u>1,604,049</u>	<u>106,287</u>	<u>1,710,336</u>
Balances end of year	<u>\$ 2,474,354</u>	<u>\$ 152,367</u>	<u>\$ 2,395,848</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Actual Variance	
Original	Final		
\$ 3,793,864	\$ 3,793,864	\$ 367,139	
-	-	-	
3,158,260	3,158,260	48,202	
300,000	300,000	(20,084)	
7,252,124	7,252,124	395,257	
4,205,000	4,205,000	(20,759)	
1,702,100	1,702,100	(9,871)	
319,500	319,500	(27,154)	
686,362	686,362	106,691	
6,912,962	6,912,962	48,907	
339,162	339,162	346,350	
339,162	339,162	346,350	
4,902,948	1,637,943	72,393	
\$ 5,242,110	\$ 1,977,105	\$ 418,743	

Central Lyon Community School District  
Notes to Required Supplementary Information – Budgetary Reporting  
Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, disbursements in the instruction and support services functions exceeded the amounts budgeted but the District did not exceed its General Fund unspent authorized budget.



**Central Lyon Community School District**  
**Other Supplementary Information**

Central Lyon Community School District  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

Schedule 1

	Special Revenue Funds			Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	
<b>Assets</b>				
Cash and cash equivalents:				
Other	\$ 106,062	\$ 146,358	\$ 165,681	\$ 418,101
Receivables:				
Property tax:				
Delinquent	2,827	-	2,363	5,190
Accrued interest	-	1,161	-	1,161
<b>Total assets</b>	<b>108,889</b>	<b>147,519</b>	<b>168,044</b>	<b>424,452</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	291	-	683	974
Salaries and benefits payable	15,855	-	-	15,855
<b>Total liabilities</b>	<b>16,146</b>	<b>-</b>	<b>683</b>	<b>16,829</b>
Fund equity:				
Unreserved fund balances	92,743	147,519	167,361	407,623
<b>Total liabilities and fund balances</b>	<b>\$ 108,889</b>	<b>\$ 147,519</b>	<b>\$ 168,044</b>	<b>\$ 424,452</b>

See accompanying independent auditor's report

Central Lyon Community School District  
Combining Schedule of Revenues, Expenditures and Changes in  
Fund Balances - Nonmajor governmental Funds  
June 30, 2007

Schedule 2

	Special Revenue Funds			Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ 200,063	\$ -	\$ 170,148	\$ 370,211
Other	10,322	502,709	52,926	565,957
State sources	128	-	107	235
Total revenues	210,513	502,709	223,181	936,403
Expenditures:				
Current:				
Instruction:				
Other instruction	-	533,794	-	533,794
Support services:				
Operation and maintenance of plant services	101,264	-	5,930	107,194
Transportation services	-	-	67,105	67,105
Other expenditures:				
Facilities acquisition	-	-	37,062	37,062
Total expenditures	101,264	533,794	110,097	745,155
Excess (deficiency) of revenues over (under) expenditures	109,249	(31,085)	113,084	191,248
Other financing sources (uses):				
Proceeds from Loans	-	-	41,755	41,755
Operating transfers out	-	-	(10,755)	(10,755)
Total other financing sources (uses)	-	-	31,000	31,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	109,249	(31,085)	144,084	222,248
Fund balances beginning of year	(16,506)	178,604	23,277	185,375
Fund balances end of year	\$ 92,743	\$ 147,519	\$ 167,361	\$ 407,623

See accompanying independent auditor's report

Central Lyon Community School District  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
June 30, 2007

Schedule 3

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
Interest Income	\$ 13,303	\$ 9,566	\$ 8,245	\$ 14,624
All School Play	1,267	912	351	1,828
Speech	4	1,101	1,006	99
Vocal	264	951	824	391
Band	261	2,024	2,239	46
Historical Plaza	4,550	2,435	6,584	401
Spanish Mexico Trip	6,548	11,879	16,570	1,857
Co-Ed Track	579	6,166	5,743	1,002
Co-Ed Golf	174	4,202	2,674	1,702
Boys' Basketball	5,359	6,546	4,773	7,132
Boys' Basketball - Summer	2,186	5,906	6,671	1,421
Football	15,399	46,631	55,736	6,294
Baseball	1,426	6,807	5,952	2,281
Baseball Trip	724	36	172	588
Wrestling	3,050	12,371	13,719	1,702
Wrestling Projects Camp	1,130	6,518	5,552	2,096
Girls' Basketball	5,772	7,146	8,987	3,931
Girls' Basketball - Summer	1,506	4,587	2,924	3,169
Volleyball	1,004	6,380	4,269	3,115
Softball	1,131	1,079	810	1,400
Field Trips	108	1,206	1,035	279
Pictures-Elem & MS	1,743	2,932	2,609	2,066
Ticket/Cash Reserve	513	3,129	3,129	513
Book Orders	278	3,041	3,012	307
PCT Account	4,123	43	3,966	200
Middle School	143	166	224	85
Donations	1,005	300	199	1,106
Milk Machine HS	604	505	490	619
Activity Tickets	1,025	55,263	56,263	25
Adult Activity Tickets	970	2,580	3,550	-
Lion's Roar	10,545	4,490	6,408	8,627
Pictures-HS	1,283	1,350	1,330	1,303
National Honor Society	544	3	355	192
Middle School Cheerleaders	307	-	-	307
Student Council Scholarship	250	750	500	500
Breske Memorial	-	500	398	102
Pep Club	1,599	4,725	4,882	1,442
Activity Fund Reimb.	24	-	-	24
D.A.R.E Program	200	-	100	100
Musical	1,875	2,333	3,470	738
Haan Craft/Family Con Science	-	571	541	30
Class of 2007	4	286	290	-
Class of 2008	1,941	3,643	5,316	268
Class of 2009	-	1,901	-	1,901
Class of 2010	-	300	300	-
FFA	2,017	75,667	76,523	1,161
Student Council	6,386	4,908	8,570	2,724

Central Lyon Community School District  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
June 30, 2007

Schedule 3

Account	Balance Beginning of Year	Revenues and Interfund Transfers	Expenditures	Balance End of Year
Scholarship	500	-	250	250
Middle School Student Council	2,103	5,400	6,162	1,341
Concessions	4,356	18,567	19,394	3,529
International Club	500	-	-	500
Testing Services	-	627	627	-
Magazines	-	10,592	6,348	4,244
Laura Ingalls Wilder Trip	-	467	408	59
Band Trip	971	11,141	5,892	6,220
Title I	324	450	274	500
All Sport Supplies	954	6,978	3,666	4,266
Volleyball Project	2,747	5,779	4,254	4,272
After Graduation Party	349	3,194	2,832	711
Cross Country Ski	163	-	-	163
Book Fair	3,506	6,354	5,914	3,946
FHA	-	273	273	-
Academic Decathlon	3	641	517	127
EL-MS Fundrasier	14,279	7,489	13,539	8,229
Mock Trial - HS	1	-	-	1
Mock Trial - IAG MS	81	352	238	195
Football Project	721	21,077	16,422	5,376
Athletic Union Clinic	2,144	2,492	2,472	2,164
Booster Concessions	2,937	37,847	38,284	2,500
Music Booster	8,397	7,589	7,985	8,001
Athletic Booster	23,355	36,489	54,719	5,125
EL/MS Teachers Lounge	1,307	144	224	1,227
EL/MS Care Committee	1,146	450	344	1,252
HS Care Committee	138	430	380	188
HS Teachers Lounge	-	52	-	52
Lion Grant - CL Foundation	4,498	4,000	5,115	3,383
Totals	\$ 178,604	\$ 502,709	\$ 533,794	\$ 147,519

See accompanying independent auditor's report

Central Lyon Community School District  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 4

		Modified Accrual Basis			
		2007	2006	2005	2004
<b>Revenues:</b>					
Local sources:					
Local tax		\$ 3,172,532	\$ 2,820,372	\$ 2,882,019	\$ 2,774,434
Tuition		75,068	61,414	45,744	35,692
Other		871,648	728,559	733,323	682,341
Intermediate sources		239,138	221,103	213,226	212,511
State sources		2,963,719	2,736,897	2,609,205	2,642,798
Federal sources		175,968	252,788	218,516	849,341
Total		<u>\$ 7,498,073</u>	<u>\$ 6,821,133</u>	<u>\$ 6,702,033</u>	<u>\$ 7,197,117</u>
<b>Expenditures:</b>					
Instruction:					
Regular instruction		2,449,678	2,320,020	2,285,783	2,295,985
Special instruction		749,445	781,642	796,275	794,841
Other instruction		985,118	889,989	881,045	754,650
Support services:					
Student services		112,575	121,286	114,945	132,178
Instructional staff services		181,289	186,607	199,852	187,167
Administration services		641,516	669,738	571,298	530,368
Operation and maintenance of plant services		514,587	532,040	534,986	447,461
Transportation services		242,262	176,692	162,149	143,022
Central support services		-	-	1,195	5,524
Other expenditures:					
Facilities acquisition		37,062	91,995	-	1,848,288
Long-term debt interest		106,853	194,979	294,571	363,553
AEA flow through		239,138	221,103	213,226	212,511
Total		<u>\$ 6,259,523</u>	<u>\$ 6,186,091</u>	<u>\$ 6,055,325</u>	<u>\$ 7,715,548</u>

See accompanying independent auditor's report

**Central Lyon Community School District**

Paul T. East, CPA  
Paul W. Vander Woude, CPA  
Rose M. Grant, CPA, MST

707 West 11<sup>th</sup> Street  
Sioux Falls, SD 57104  
(605) 334- 9111  
(605) 334-2195 Fax

**Independent Auditor's Report on Internal Control**  
**over Financial Reporting and on Compliance and Other Matters**  
**Based on an Audit of Financial Statements Performed in Accordance**  
**with Government Auditing Standards**

To the Board of Education of  
Central Lyon Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Central Lyon Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Central Lyon Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing our opinion on the effectiveness of Central Lyon Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Lyon Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting and its operation that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Central Lyon Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Central Lyon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Central Lyon Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Lyon Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the



internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-07-A and I-07-B are material weaknesses. Prior year reportable conditions have all been resolved except for item I-06-A.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Central Lyon Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit is based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Central Lyon Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Central Lyon Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Central Lyon Community School District and other parties to whom Central Lyon Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Central Lyon Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*East, Vander Woude, Grant & Co, P.C.*

East, Vander Woude, Grant & Co., P.C.

December 7, 2007

Central Lyon Community School District  
Schedule of Findings  
Year ended June 30, 2007

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

I-07-A Segregation of Duties – The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, expenditures, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-07-B Financial Report Preparation - Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - We recommend that the staff responsible for the accounting and reporting function obtain additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements/

Response - We are cognizant of this limitation

Conclusion - Response accepted

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

Central Lyon Community School District  
Schedule of Findings  
Year ended June 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-07-A      Certified Enrollment – No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-07-B      Certified Budget - Disbursements for the year ended June 30, 2007, exceeded the amount budgeted in the other expenditures function.
- Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend our budget before disbursements exceed the budget
- Conclusion – Response accepted.
- II-07-C      Questionable Expenditures - No expenditures were noted that might not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-07-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-07-E      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. Coverage amounts should be reviewed annually to insure adequacy for current operations.
- II-07-F      Board Minutes - No transactions requiring Board approval, which had not been approved by the Board, were noted.
- II-07-G      Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-07-H      Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- II-07-I      Deficit Balances – There were no funds with a deficit balance at June 30, 2007.
- II-07-J      Cancelled checks – The District is receiving check images of the front of the check for each of the checking accounts but not the back of them. Chapter 554D.114 (5) of the Code of Iowa requires if the canceled checks are not received an electronically retained check image of both front and back are needed.
- Recommendation – The District should require the banks they have accounts with to provide this information so that they can comply with the Code of Iowa.
- Response – We will request the required documentation from the banks to comply with the Code of Iowa
- Conclusion – Response accepted.

Central Lyon Community School District  
Schedule of Findings  
Year ended June 30, 2007

II-07-K

Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Ken Kuehl, Employee,	Electrical work	\$ 3,228
Steve Wells, Spouse of District Employee	Banking – Certificate of Deposit	\$250,000
Jim Kennedy, Spouse of District Employee, Frontier Insurance & Real Estate	Insurance	\$ 77,937
David Fields, Employee, Rapid Grow Lawn	Maintenance of Grounds	\$12,433
Harlan Clasen, Spouse of District Employee, Clasen Excavating	Snow Removal	\$ 6,579
Steve Sieperda, Board President, Frontier Bank employee	Banking relationship investments & checking accounts	\$592,033

In accordance with an Attorney General's opinion dated November 9, 1996, the transactions with Jim Kennedy, Harlan Clasen, Ken Kuehl, Steve Wells, Steve Sieperda, and Dave Fields were subjected to competitive bidding processes.